

# Business Should Reach an All-Time High

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high to prevent foreigners from withdrawing their deposits held here. Also, domestic demand for credit promises to remain strong. Hence, interest rates will edge upward during 1965.

16. There may be some erosion in bond prices as interest rates move upward, but there should be no massive decline unless a real credit crisis develops. Investors making new purchases would do well, however, to stick to bonds maturing within five years. Sometime during 1965 longer bonds may become good buys.

17. Inflation fears may rise in 1965; but we do not look for runaway prices next year as productive capacity is too large.

18. More wage hikes are certain in 1965. Liberal concessions won in the auto and other industries in 1964 provide tempting targets for the steel unions and secondary labor groups to shoot at in 1965.

19. To the extent—and this could be considerable—that higher costs cannot be compensated for by price hikes and greater efficiency, profit margins will suffer in 1965.

20. Indeed, despite the projected 2% cut in the corporate income tax rate next year, we look for only a very slight overall rise in corporate profits... nothing to compare with this year's huge 20% expansion.

21. Labor disputes will be numerous in 1965. Many labor pacts can, and will, be reopened for wage adjustments during the coming year.

22. Employment will continue favorable in 1965, but additions to rolls will be most noticeable in fields such as teaching, personal services, and government work.

23. Little real progress will be apparent in the drive to reduce unemployment. We are only now just "touching off" the big new explosion in growth of the labor force.

24. Due to rising labor costs, look for business to turn even more to automation and labor-saving devices in 1965. Pressures on profit margins will spur cost-cutting and efforts to raise productivity.

25. Because of rising expenses and overwhelming competition, a further increase in failures will be seen in 1965.

26. As a result of automobile strikes in late 1964 and the fear of a possible steel shutdown in mid-1965, we look for a bulge in business volume during the first half of 1965.

27. In a nutshell, business should make new all-time highs in early 1965; after midyear, a tapering-off appears likely. However, 1965 will set another new record.

28. Following the strike interruptions of late 1964, personal income should move smartly ahead to new highs in the first half of 1965... although the rate of advance will slow after midyear.

29. This projected rise in income will be beneficial to retail trade. And though buying in the second quarter may be dampened by heavy income-tax payments due Uncle Sam on April 15th as a result of under-withholding during 1964, the last half of the year will find retail trade in certain lines—such as furs and jewelry—spurred by President Johnson's promised excise-tax cuts.

30. The important automobile industry should post another excellent sales year in 1965, but as the year advances we feel that gains will be harder to come by.

31. The powerful building and construction activities should prove a strong support to general business during 1965... even though we foresee no marked improvement. Some gain in dollar volume will be largely due to higher costs. Apartment building has been overdone in some sections and a breathing spell is logical. One- and two-family houses could post a small increase, but the big market for new housing is still some years distant.

32. Overextension of credit and overambitious operators have put the real estate market in a bind in many large metropolitan areas. We strongly advise caution in making new commitments, especially in commercial real estate where a thin equity exists.

33. However, even if scarcer than in recent years, there will still be opportunities for selective purchases of real estate in 1965. Each area is a law unto itself. Know your locality and study the direction of growth trends. Farm land bought in the path of expanding suburbs may be a better long-term buy in 1965 than stocks.

34. Nonfarm real estate foreclosures will continue in an uptrend during 1965. This should be particularly true in regions where over-building of speculative homes has taken place and where cutbacks in defense spending cause local distress.

35. Productive farm land that lends itself to mechanization will not decline in price in 1965. Rising use of farm equipment makes it necessary for operators to cultivate ever-larger spreads. This trend is maintaining the demand for fertile acreage in the farm belt.

36. As 1965 begins, prices for agricultural products are generally well above their lows for 1964. Unless severe widespread drought intervenes, we look for no more than seasonal strength in agricultural prices during the year ahead. In a word, we do not see any near-term important uplifting forces on the farm scene.

37. The situation in industrial commodity prices is somewhat different. With business heading higher in the first half and with labor costs scaling new peaks, industrial commodity prices, with some exceptions, will push upward at least during the coming six months.

38. Living costs will also rise to new all-time heights. And, since President Johnson is committed to getting Medicare passed at this session of Congress, look for hospital, nursing, and doctors' fees to spurt before the end of 1965.

39. Even with federal income taxes already slated to drop a notch next year and with prospects excellent that excise taxes will be cut, rejoicing should be restrained by the knowledge that local taxes will take another up-tick and social security levies will rise again... even faster after the 89th Congress enacts Medicare.

40. Climbing capital goods outlays will be one of the brightest spots for 1965. Gains over this year could run as high as 10%.

41. Further progress in United States exports will be harder to achieve in the coming year. Certainly, if the steel labor outlook appears bad by mid-spring, heavy imports of foreign steel may be

resorted to by U.S. businessmen. This would result in a narrowing of our favorable trade balance and have a further adverse impact on the U.S. international balance of payments.

42. Although we are not forecasting runaway inflation for 1965, we do feel that attempts to keep money easy in this country, in the face of a world-wide trend toward tighter credit, will greatly increase the danger of a later inflationary blow-off. Conditions remind us of the late 1920's when the Federal Reserve here kept credit too cheap and plentiful to support the British pound. Hence the eventual collapse came from an even more dangerous level.

43. It is unlikely that the United States will raise the price of gold during 1965. However, we may well see the calling of a monetary conference to deal with the weakened British financial situation and to attempt greater liquidity for world currencies generally.

44. As far as gold stocks are concerned, they are already high and should only be held in 1965 as insurance against the long-range trend toward higher world prices for gold.

45. The silver coinage situation will become more acute as the year progresses.

The 89th Congress will be forced to consider a new silver coinage act. If it is not passed in 1965, it will be shortly thereafter.

46. Returning to the all-important foreign scene—since we are very much wrapped up in the future of the Free World—we forecast further instability among the Russian leadership. Khrushchev's ouster marked only the beginning of the coming power grab in Moscow. The real leader has not yet emerged.

47. Ascendancy of the African nations to a position of control in the United Nations will force the United States in 1965 to take action alone when vital spheres of influence are violated. The UN will become even more of a debating society; and month by month the chances grow dimmer that we will ever again see United Nations troops used for rescue operations such as in Korea or the Congo.

48. Following the British crisis, General de Gaulle will work harder than ever in 1965 to unite Europe as a third force between Communism and the United States. President Johnson is well aware that the winds of change are blowing strongly in Western Europe. 1965 could see the beginning of the end for transatlantic

union as envisioned by U.S. Administrations during the past two decades.

49. World-wide credit problems and restrictions on trade cast dark shadows on investment prospects abroad. Many nations which have shown great growth during the past 20 years will be poor risks for new commitments during the year 1965.

50. In conclusion, we recall the statement of a former President of a South American nation: That the U.S.A. prospered so greatly because its founders came to worship God... as opposed to countries whose settlers went to worship gold. Surely we can hope to prosper in the future only as we recognize that righteousness and morality must be as important as analysis and statistics as springboards for new business ventures during 1965 and in all the years ahead.



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